

# Rubin & Hays

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CHRISTIAN L. JUCKETT

PARALEGAL  
MARY M. EMBRY

February 25, 2004

RECEIVED  
FEB 26 2004  
PUBLIC SERVICE  
COMMISSION

Mr. Thomas Dorman, Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, Kentucky 40602

Case 2004-00062

Re: Muhlenberg County Water District PSC Application

Dear Mr. Dorman:

Enclosed please find the original and ten (10) copies of the Application of the Muhlenberg County Water District for an Order authorizing the issuance of securities pursuant to KRS 278.300.

This Application requests approval of the issuance of securities for the purpose of refunding certain high interest Bonds of the Applicant. **Due to the extreme volatility of the financial markets and the fact that this refunding is interest rate sensitive, we request that the Commission process the Application in an expedited manner and issue an Order on or before March 24, 2004 (the date set for closing the securities).**

Thank you for your assistance and if you need any additional information or documentation, please let us know.

Sincerely,

Rubin & Hays

By   
W. Randall Jones

WRJ:jlm  
Enclosures

cc: Ms. Becky Wright, Muhlenberg County Water District  
Ms. Kristen Curtis, Morgan Keegan

**COMMONWEALTH OF KENTUCKY**

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

RECEIVED  
FEB 26 2004  
PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF:

**THE APPLICATION OF MUHLENBERG COUNTY )  
WATER DISTRICT TO ISSUE SECURITIES )  
IN THE APPROXIMATE PRINCIPAL AMOUNT )  
OF \$1,248,000 FOR THE PURPOSE OF REFUNDING ) CASE NO. 2004-00062  
CERTAIN OUTSTANDING REVENUE BONDS OF )  
THE DISTRICT PURSUANT TO THE PROVISIONS )  
OF KRS 278.300 AND 807 KAR 5:001 )**

**\*\*    \*\*\*    \*\*\*\*    \*\*\*\*\*    \*\*\*\*    \*\*\*    \*\***

**APPLICATION**

The Applicant, Muhlenberg County Water District (the "District"), files this Application pursuant to KRS 278.300, 807 KAR 5:001, and all other applicable laws and regulations, and requests that the Kentucky Public Service Commission (the "Commission") enter an Order authorizing the District to issue certain securities in the approximate principal sum \$1,248,000 (subject to adjustment of up to 10%), for the purpose of refunding certain outstanding waterworks revenue bonds of the District. In support of this Application, and in compliance with the rules and regulations of the Commission, the District states as follows:

1. The District was established in accordance with the provisions of Chapter 74 of the Kentucky Revised Statutes pursuant to an Order of the County Judge/Executive of Muhlenberg County, which Order is on file in the County Court Order Books in the office of the Clerk of Muhlenberg County, Kentucky. The District is now, and has been since its inception, regulated by the Commission, and all records and proceedings of the Commission with reference to the District

are incorporated in this Application by reference. The District does not have any Articles of Incorporation due to the fact that it is a statutory entity.

2. The governing body of the District is its Board of Commissioners which is a public body corporate, with power to make contracts in furtherance of its lawful and proper purpose as provided for in KRS 74.070 and all applicable law and regulations.

3. The mailing address of the District is as follows:

Muhlenberg County Water District  
c/o Mr. Bobby Creager, Treasurer  
P.O. Box 348  
Greenville, Kentucky 42345  
Telephone: (270) 338-1300

4. A general description of the District's water system property, together with a statement of the original cost, is contained in the District's Annual Report for 2002 which is on file with the Commission. The Annual Report is incorporated herein by reference.

5. The District proposes to borrow funds from the Kentucky Rural Water Finance Corporation ("KRWFC") pursuant to an Assistance Agreement (the "2004 Loan"), in the estimated principal amount of \$1,248,000 (subject to adjustment of up to 10%) for the purpose of refunding the outstanding revenue bonds designated as the Muhlenberg County Water District Water System Revenue Bonds, Series 1979, dated January 11, 1979, in the original principal amount of \$2,048,000 (the "Prior Bonds"). Said Prior Bonds are currently held by the U.S. Department of Agriculture, acting through Rural Development ("RD") and bear interest at the rate of 5.00% per annum.

6. The estimated debt service for the 2004 Loan is shown in Exhibit A, which is attached hereto and incorporated herein by reference. The debt service schedule and estimated interest rates are subject to change because of market conditions. The final terms and details of the

2004 Loan may vary from the present assumptions based upon market conditions and other business judgment factors.

7. The 2004 Loan will provide the District with the funds necessary to (i) refund the Prior Bonds; and (iii) pay the fees and expenses incident to the issuance of the 2004 Loan.

8. The Sources and Uses of Funds to be obtained from the issuance of the 2004 Loan are detailed as **Exhibit B**, which is attached hereto and incorporated herein by reference.

9. It is anticipated that the proposed refinancing will result in total gross savings of approximately \$84,977, which represents a net present value savings of \$70,742. These savings are shown on the Debt Service Comparison, which is attached hereto and incorporated herein by reference as **Exhibit C**.

10. The final principal amount of the 2004 Loan will be adjusted, based upon final interest rates which will be known on or about February 24, 2004, in order to provide funds sufficient to redeem, in full, the Prior Bonds. Final financial figures will be submitted to the Commission in a timely manner. The Applicant will not issue the securities if interest rates in the bond market shift to a point where the Applicant will not achieve any savings.

11. The Debt Service Schedule of the outstanding Prior Bonds being refunded is set forth in **Exhibit D**.

12. The District represents that the 2004 Loan is in the public interest and is intended to accomplish the purpose of strengthening the financial condition of the District by producing substantial debt service savings. This is a lawful object within the corporate purposes of the District's utility operations. The 2004 Loan is necessary, appropriate for, and consistent with the proper performance by the District of its service to the public and will not impair its ability to perform that service.

13. The District represents that it will, as soon as reasonably possible after the closing of the 2004 Loan, file with the Commission a statement setting forth the date of issuance of the 2004 Loan, the price paid, the fees and expenses incurred in the issuance of the 2004 Loan, and the terms and interest rates of the 2004 Loan.

14. The detailed Statement of Revenue and Expenses, Balance Sheet and Statement of Cash Flows for the twelve month period ending on December 31, 2002 are attached hereto and incorporated herein by reference as **Exhibit E** respectively.

15. The remaining financial schedules and other information necessary for the Financial Exhibit required by 807 KAR 5:001, Section 6 and Section 11 (2) (a) are contained in the 2002 Annual Report which is on file with the Commission. The Annual Report is incorporated herein by reference.

16. Pursuant to 807 KAR 5:001, the District hereby responds as follows:

- (a) Section 6(4) Mortgages: The District does not have any mortgages in effect as of the date hereof.
- (b) Section 6(5) Bonds: The 2004 Loan will be secured by a pledge of the revenues of the District's System.
- (c) Section 11(2)(b): The District does not have any trust deeds in effect as of the date hereof.
- (d) Section 11(2)(c): No property is being acquired as the proceeds of the securities are being used for the refunding of the Prior Bonds.

17. The District hereby requests and moves for a deviation, pursuant to 807 KAR 5:001, Section 14, from the requirements of 807 KAR 5:001, Section 6, which requires that the financial data filed with the Application be for a twelve (12) month period ending within

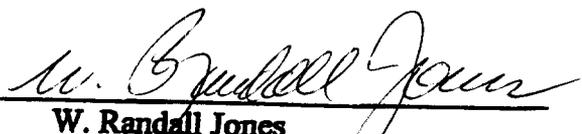
ninety (90) days of the filing of the application. The District states that there has been no change that is material in nature in the financial condition or operation of the District since December 31, 2002. The financial data filed with this Application is for the twelve (12) month period ending December 31, 2002. This is the most recent published financial data available. Because of the volatility of the bond market, the District cannot run the risk of delaying the closing of the 2004 Loan while more current financial data is compiled. Also, the refunding of the Prior Bonds will save the District significant revenues thus improving the District's financial position.

18. No rate adjustment will be necessary.

**WHEREFORE**, the District respectfully requests that the Commission take the following actions:

1. Authorize the issuance of the securities requested in the Application prior to the closing date of **March 24, 2004**;
  2. Grant the District a deviation, to the extent necessary, from 807 KAR 5:001, Section 6 to allow the submission of the District's 2002 Annual Report and 2002 Audit in lieu of more recent financial data, there being no material change in the data in 2003 and due to the volatility of the present bond market; and
  3. Process this Application without a formal hearing in order to save time and expense.
- The District will promptly respond to any inquiries or information requests by the Commission's staff.

**RUBIN & HAYS**

By   
**W. Randall Jones**  
**Kentucky Home Trust Building**  
**450 South Third Street**  
**Louisville, Kentucky 40202**  
**Phone: (502) 569-7525**  
**Fax: (502) 569-7555**  
**Counsel for Muhlenberg County**  
**Water District**

STATE OF KENTUCKY            )  
  ) SS  
COUNTY OF MUHLENBERG    )

The affiant, Bobby Creager, being first duly sworn, states: That he is the Treasurer of the Muhlenberg County Water District, the Applicant in this case; that he has read the foregoing Application and has noted the contents thereof; that the same are true of his own knowledge and belief, except as to matters which are herein stated to be based on information or belief, and that these matters, he believes to be true and correct.

IN TESTIMONY WHEREOF, witness the signature of the undersigned on the 24 day of February, 2004.

Bobby G. Creager  
Bobby Creager, Treasurer

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me by Bobby Creager, Treasurer of the Muhlenberg County Water District, on this the 24 day of February, 2004.

My Commission expires: 4-24-04.

Rebecca Wright  
NOTARY PUBLIC



**\$1,248,000**  
**Muhlenberg County Water District**  
**Refunding of Series 1979**  
**Kentucky Rural Water Finance Corporation**  
**NET DEBT SERVICE SCHEDULE**

Date	Principal	Coupon	Interest	Total P+I	Net New D/S
12/30/2004	-	-	18,859.55	18,859.55	18,859.55
12/30/2005	82,000.00	1.310%	37,182.00	119,182.00	119,182.00
12/30/2006	83,000.00	1.650%	35,960.15	118,960.15	118,960.15
12/30/2007	85,000.00	1.950%	34,446.65	119,446.65	119,446.65
12/30/2008	87,000.00	2.310%	32,613.05	119,613.05	119,613.05
12/30/2009	89,000.00	2.610%	30,446.75	119,446.75	119,446.75
12/30/2010	91,000.00	2.850%	27,988.55	118,988.55	118,988.55
12/30/2011	93,000.00	3.090%	25,254.95	118,254.95	118,254.95
12/30/2012	96,000.00	3.330%	22,219.70	118,219.70	118,219.70
12/30/2013	100,000.00	3.530%	18,856.30	118,856.30	118,856.30
12/30/2014	103,000.00	3.700%	15,185.80	118,185.80	118,185.80
12/30/2015	107,000.00	3.840%	11,225.90	118,225.90	118,225.90
12/30/2016	111,000.00	3.950%	6,979.25	117,979.25	117,979.25
12/30/2017	116,000.00	3.950%	2,496.00	118,496.00	118,496.00
12/30/2018	5,000.00	4.100%	102.50	5,102.50	5,102.50
<b>Total</b>	<b>1,248,000.00</b>	<b>-</b>	<b>319,817.10</b>	<b>1,567,817.10</b>	<b>1,567,817.10</b>

Morgan Keegan & Co., Inc.  
Kentucky Public Finance

File = SERIES 2004 A 2-17.SF-KRWFC - Muhlenberg 1979  
2/23/2004 2:00 PM



**\$1,248,000**  
**Muhlenberg County Water District**  
**Refunding of Series 1979**  
**Kentucky Rural Water Finance Corporation**  
**SOURCES & USES**

Dated 02/01/2004

Delivered 03/24/2004

**SOURCES OF FUNDS**

Par Amount of Bonds.....	\$1,248,000.00
Transfers from Prior Issue Debt Service Funds.....	20,183.34
Accrued Interest from 02/01/2004 to 03/24/2004.....	5,553.09
<b>TOTAL SOURCES.....</b>	<b>\$1,273,736.43</b>

**USES OF FUNDS**

Deposit to Current Refunding Fund.....	1,216,311.58
Costs of Issuance.....	33,700.00
Total Underwriter's Discount (0.946%).....	11,800.46
Deposit to Debt Service Fund.....	5,553.09
Gross Bond Insurance Premium ( 29.0 bp).....	4,546.67
Original Issue Discount (OID).....	1,429.36
Rounding Amount.....	395.27
<b>TOTAL USES.....</b>	<b>\$1,273,736.43</b>



**\$1,248,000**  
**Muhlenberg County Water District**  
**Refunding of Series 1979**  
**Kentucky Rural Water Finance Corporation**  
**DEBT SERVICE COMPARISON**

Date	Total P+I	Net New D/S	Old Net D/S	Savings
12/30/2004	18,859.55	18,859.55	30,061.25	11,201.70
12/30/2005	119,182.00	119,182.00	120,036.25	854.25
12/30/2006	118,960.15	118,960.15	119,450.00	489.85
12/30/2007	119,446.65	119,446.65	120,150.00	703.35
12/30/2008	119,613.05	119,613.05	119,675.00	61.95
12/30/2009	119,446.75	119,446.75	120,025.00	578.25
12/30/2010	118,988.55	118,988.55	119,200.00	211.45
12/30/2011	118,254.95	118,254.95	119,200.00	945.05
12/30/2012	118,219.70	118,219.70	119,000.00	780.30
12/30/2013	118,856.30	118,856.30	119,575.00	718.70
12/30/2014	118,185.80	118,185.80	118,925.00	739.20
12/30/2015	118,225.90	118,225.90	119,050.00	824.10
12/30/2016	117,979.25	117,979.25	118,925.00	945.75
12/30/2017	118,496.00	118,496.00	118,550.00	54.00
12/30/2018	5,102.50	5,102.50	118,900.00	113,797.50
<b>Total</b>	<b>1,567,817.10</b>	<b>1,567,817.10</b>	<b>1,700,722.50</b>	<b>132,905.40</b>

**PRESENT VALUE ANALYSIS SUMMARY (NET TO NET)**

Gross PV Debt Service Savings.....	84,976.98
Net PV Cashflow Savings @ 4.103%(AIC).....	84,976.98
Accrued Interest Credit to Debt Service Fund.....	5,553.09
Transfers from Prior Issue Debt Service Fund.....	(20,183.34)
Contingency or Rounding Amount.....	395.27
<b>NET PRESENT VALUE BENEFIT.....</b>	<b>\$70,742.00</b>
NET PV BENEFIT / \$1,202,450 REFUNDED PRINCIPAL.....	5.883%
NET PV BENEFIT / \$1,248,000 REFUNDING PRINCIPAL.....	5.668%

**REFUNDING BOND INFORMATION**

Refunding Dated Date.....	2/01/2004
Refunding Delivery Date.....	3/24/2004



**\$1,262,700**  
*Muhlenberg County Water District*  
*Series 1979*

**PRIOR ORIGINAL DEBT SERVICE**

Date	Principal	Coupon	Interest	Total P+I
12/30/2003	-	-	31,567.50	31,567.50
12/30/2004	60,250.00	-	61,628.75	121,878.75
12/30/2005	61,450.00	-	58,586.25	120,036.25
12/30/2006	64,000.00	-	55,450.00	119,450.00
12/30/2007	68,000.00	-	52,150.00	120,150.00
12/30/2008	71,000.00	-	48,675.00	119,675.00
12/30/2009	75,000.00	-	45,025.00	120,025.00
12/30/2010	78,000.00	-	41,200.00	119,200.00
12/30/2011	82,000.00	-	37,200.00	119,200.00
12/30/2012	86,000.00	-	33,000.00	119,000.00
12/30/2013	91,000.00	-	28,575.00	119,575.00
12/30/2014	95,000.00	-	23,925.00	118,925.00
12/30/2015	100,000.00	-	19,050.00	119,050.00
12/30/2016	105,000.00	-	13,925.00	118,925.00
12/30/2017	110,000.00	-	8,550.00	118,550.00
12/30/2018	116,000.00	-	2,900.00	118,900.00
<b>Total</b>	<b>1,262,700.00</b>	<b>-</b>	<b>561,407.50</b>	<b>1,824,107.50</b>

**YIELD STATISTICS**

Average Life.....	8.204 Years
Weighted Average Maturity (Par Basis).....	8.057 Years
Average Coupon.....	5.0000000%

**REFUNDING BOND INFORMATION**

Refunding Dated Date.....	2/01/2004
Refunding Delivery Date.....	3/24/2004

Morgan Keegan & Co., Inc.  
 Kentucky Public Finance

File = SERIES 2004 A 9 bp.SF-SINGLE PURPOSE  
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**MUHLENBERG COUNTY WATER DISTRICT**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES**  
**For The Years Ended December 31, 2002 and 2001**

	2002	2001
<b><u>OPERATING REVENUES</u></b>		
Water Sales	\$ 2,152,665	\$ 2,166,550
Other Operating Revenues	73,613	75,365
	2,226,278	2,241,915
<b>TOTAL OPERATING REVENUES</b>		
 <b><u>OPERATING EXPENSES</u></b>		
Source of Supply Expenses	657,398	586,219
Pumping Expenses	52,732	47,942
Water Treatment Expenses	8,741	8,421
Transmission and Distribution Expenses	386,283	354,847
Customer Accounts Expenses	103,608	141,381
Administrative and General Expenses	534,295	412,394
Depreciation (Note 1)	281,519	287,395
Taxes	44,404	40,640
	2,068,980	1,879,239
<b>TOTAL OPERATING EXPENSES</b>		
<b>OPERATING INCOME &lt;LOSS&gt;</b>	157,298	362,676
 <b><u>NONOPERATING REVENUES &lt;EXPENSES&gt;</u></b>		
Interest Revenue	22,794	28,955
Interest on Long Term Debt	< 192,637 >	< 200,384 >
Other Interest	< 1,062 >	< 1,267 >
Amortization of Debt Discount, Rate Case Expenses	< 12,233 >	< 12,233 >
	< 183,138 >	< 184,929 >
<b>TOTAL NONOPERATING REVENUES &lt;EXPENSES&gt;</b>		
<b>NET REVENUES &lt;LOSS&gt;</b>	< 25,840 >	177,747
<b>FUND BALANCE - January 1, &lt;Deficit&gt;</b>	< 416,747 >	< 594,494 >
<b>FUND BALANCE - December 31, &lt;Deficit&gt;</b>	\$< 442,587 >	\$< 416,747 >
	=====	=====

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
BALANCE SHEETS  
December 31, 2002 and 2001

	2002	2001
<b><u>ASSETS</u></b>		
Current Assets	\$ 291,834	\$ 311,831
Cash		
Accounts Receivable, Net of Allowance for Uncollectible Amounts (Note 1)	31,864	31,246
Inventory - At Cost (Note 1)	55,945	63,353
Prepaid Expenses - Insurance (Note 1)	1,890	3,168
	381,533	409,598
<b>TOTAL CURRENT ASSETS</b>		
Restricted Assets	258,065	244,939
Bond and Interest Fund (Notes 1, 3)	162,328	158,879
Depreciation Fund (Note 1)	115,327	102,720
Deposit Fund (Note 1)		
	535,720	506,538
<b>TOTAL RESTRICTED ASSETS</b>		
Property, Plant, and Equipment (Note 2)	27,152	27,152
Land	680,184	652,044
Buildings and Office	8,699,322	8,654,158
Water System	160,255	155,055
Office Furniture and Equipment	602,622	586,484
Vehicles and Equipment	51,298	-0-
Work in Progress (Note 10)		
	10,220,833	10,074,899
Less Accumulated Depreciation	4,269,290	4,009,799
	5,951,543	6,065,100
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>		
Other Assets		
Unamortized Debt Discount, Issuance Costs (Note 1)	72,147	76,38
Unamortized Rate Case Costs	24,000	32,00
	96,147	108,38
<b>NET OTHER ASSETS</b>		
<b>TOTAL ASSETS</b>	\$ 6,964,943	\$ 7,089,61

The accompanying notes are an integral part of these statements.

MUHLENBERG COUNTY WATER DISTRICT  
 BALANCE SHEETS  
 December 31, 2002 and 2001

	2002	2001
	-----	-----
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities (Payable from Current Assets)		
Trade Accounts Payable	\$ 78,893	\$ 124,180
Customer Deposits	116,202	103,431
	<u>195,095</u>	<u>227,611</u>
TOTAL		
Current Liabilities (Payable from Restricted Assets)		
Current Portion of Bond Obligations	180,000	173,000
	<u>375,095</u>	<u>400,611</u>
TOTAL CURRENT LIABILITIES		
Long-Term Liabilities - (Note 3)		
Bonds Payable (Net of Current Portion)	3,313,000	3,493,000
	<u>3,688,095</u>	<u>3,893,611</u>
TOTAL LIABILITIES		
FUND EQUITY		
Total Contributed Capital (Note 1)	3,719,435	3,612,755
Fund Balance <Deficit>	< 442,587 >	< 416,747 >
	<u>3,276,848</u>	<u>3,196,008</u>
TOTAL FUND EQUITY		
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 6,964,943</u>	<u>\$ 7,089,619</u>
	=====	=====

The accompanying notes are an integral part of these statements.

## STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2002 and 2001

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,225,660	\$ 2,237,075
Cash payments for goods and services	1,824,062	1,564,517
	-----	-----
Net Cash Provided by Operating Activities	401,598	672,558
	-----	-----
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Fixed Assets, Rate Case	< 167,959>	< 172,563
Increase <Decrease> in Customer Deposits	12,771	19,151
Retirement of Bonds Payable	< 173,000>	< 170,000
Interest Expense	< 193,699>	< 201,651
Construction Contributions, Grants	106,680	128,864
	-----	-----
Net Cash <Used> for Capital and Related Financing Activities	< 415,207>	< 396,199
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on Investments	22,794	28,955
	-----	-----
Net Cash Provided by Investing Activities:	22,794	28,955
	-----	-----
NET INCREASE <DECREASE> IN CASH <sup>1</sup>	9,185	305,314
CASH AND RESTRICTED CASH, January 1	818,369	513,055
	-----	-----
CASH AND RESTRICTED CASH, December 31	\$ 827,554	\$ 818,369
	=====	=====

The accompanying notes are an integral part of these statements.

**MUHLENBERG COUNTY WATER DISTRICT**  
**STATEMENTS OF CASH FLOWS**  
 For the Years Ended December 31, 2002 and 2001

	2002	2001
	-----	-----
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income <Loss>	\$ 157,298	\$ 362,676
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:		
Depreciation	281,519	287,395
CHANGES IN ASSETS AND LIABILITIES		
<Increase> Decrease in Accounts Receivable	< 618 >	< 4,840 >
<Increase> Decrease in Inventory	7,408	< 28,676 >
<Increase> Decrease in Prepaid Expense	1,278	< 1,928 >
Increase <Decrease> in Accounts Payable	< 45,287 >	57,931
	-----	-----
TOTAL ADJUSTMENTS	244,300	309,882
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES:	\$ 401,598	\$ 672,558
	=====	=====

The accompanying notes are an integral part of these statements.